FEDERAL RESERVE BANK OF BOSTON
MONTHLY REVIEW
Of Industrial and Financial Conditions in the New England District

VOL. 28 BOSTON 6, MASS., JUNE 1946 NO. 6

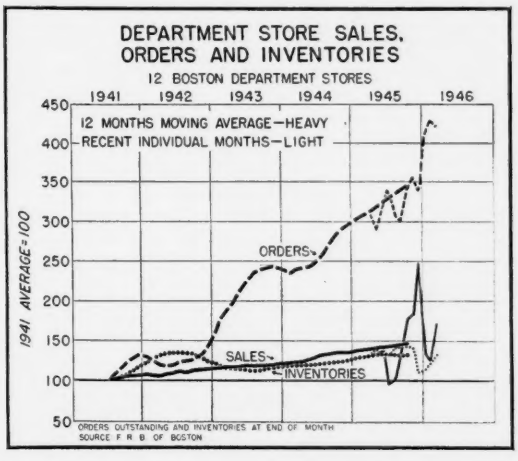
Demand Continues High—Unfilled Orders Mount

WITH its fuel supply curtailed by coal strikes and its other raw materials supplies threatened by a possible railroad walkout, New England business did well during April to sustain and even to increase its level of activity, although uncertainties still obscured the future.

Diesel power supplemented depleting coal piles of its railroads sufficiently to support an increase of 2.7 per cent in originating freight carloadings during the five weeks ending May 4 over the corresponding period of 1945. Total electric power output continued close under the levels of the preceding year, and even rose slightly above during the week ending April 13 for the first time since the previous September. Cotton consumption at New England mills rose 5.5 per cent over March 1946 and 8.6 per cent over April 1945.

Summary estimates made by the New England Regional Office of the Bureau of Labor Statistics indicated an increase in total manufacturing employment in April of 4.8 per cent over the preceding month but a decrease of 7.7 per cent from April 1945. Only Maine and Vermont failed to show an improvement over the preceding month. Settlement of labor disputes in the electrical machinery industry returned many thousands of employees to work and permitted that important segment of the regional economy to resume more normal operations. The United States Employment Service listed 68,000 New England job openings in late April, but at the same time 235,000 potential workers were receiving unemployment compensation or veterans' readjustment allowance.

The F. W. Dodge Corporation reports continued to reflect the pent-up demands for new construction. Contracts awarded during April were over six times those awarded in April 1945. Residential construction awards increased nearly 60 times, and in April 1946 constituted over 50 per cent of total construction awards. Over 3,200 new dwelling units, mostly of one-family type, were included in this spectacular increase, as compared with only 39 in April 1945.



Encouraging as these production factors appeared to be, they failed to keep pace with the demand expressed in retail trade, both on the part of consumers and retailers. Easter trade aided purchases at 122 New England department stores and apparel shops to increase 49 per cent over April 1945. For the first four months of 1946 these stores reported 19 per cent more sales than during the first four months of 1945.

At 12 Boston stores average monthly sales for the 12 months ending in March 1946 were 148 per cent of average monthly sales in 1941. Unfilled merchandise orders placed by the stores with producers and wholesalers had reached a comparable index of 345 on a 12 months' basis, and an index of 420 for the individual month of March. An even worse inflation of department store orders is reported by the Federal Reserve Board for the country as a whole. The outstanding orders index for Boston has been rising spectacularly ever since inventories commenced to fall in late 1942. If the behavior of department stores is similarly reflected in orders of other establishments, a tendency toward weaker prices or toward more plentiful supplies will produce a wholesale cancelation of orders which might have a depressing effect upon business generally.

The upward trend in loans in the weekly reporting member banks in this district continued during April and May of the current year and stood on May 22 at the highest level in 14 years. Moderate gains in demand and time deposits during April and May have been insufficient to counteract the steady shrinkage in Government deposits, thereby causing total adjusted deposits to decline.

On April 27 the preferential rate of one-half per cent on discounts and advances for member banks, secured by United States obligations having one year or less to maturity or call, was abolished and replaced by a one per cent rate. In the ensuing month member bank discounts at the Federal Reserve Bank of Boston decreased about 60 per cent.

Member Bank Earnings Higher in 1945

BANK earnings in 1945 generally showed increases over those of 1944, according to an analysis of reports of 232 member banks in Federal Reserve District I submitted to the Federal Reserve Bank of Boston. These banks comprise 10 in Boston and 222 outside. Chiefly responsible for the increase in earnings were the expansion in holdings of U. S. Government obligations, an increase in the volume of loans and discounts, and nonrecurring profits on sales of securities.

Although salary and wage expense increased in almost all banks, net profits after state and Federal income taxes in 1945 amounted to about 10 per cent on capital funds for the 232 reporting member banks in the district, against a return of eight per cent in 1944. Since there is great variation in the ratio of capital funds to total deposits, the range being anywhere from 5 per cent to 40 per cent, the measure of net profits in relation to capital funds should be used with some caution. A more significant measure is the relationship of net profits to total available funds, which include capital funds plus gross deposits, bills payable and rediscounts.

For the Boston banks the percentage of net profits, after income taxes, to total available funds in 1945 was 0.6 per cent, a slight improvement over the 0.5 per cent return in 1944, but was on a par with the percentages shown in the prewar years 1939 and 1938. The banks outside of Boston, with net profits of 0.7 per cent on total available funds just equalling the 1944 rate of return, made a somewhat better showing than those in the city. This showing, however, was slightly lower than in the prewar year 1939, when the return on total available funds for the outside banks was 0.8 per cent.

Interest and dividends received on bonds and stocks accounted for over half of total income in most of the member banks outside of Boston.

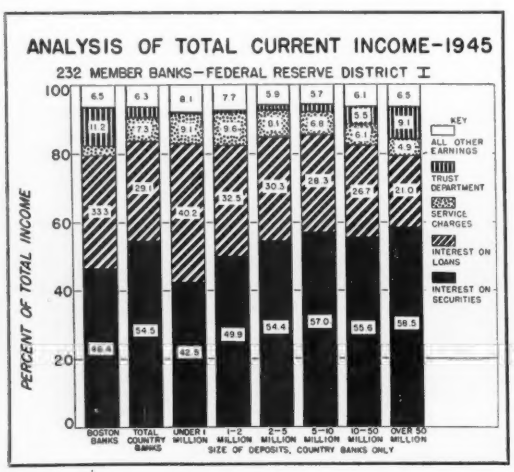
The average yield on United States Government securities was 1.8 per cent in the smaller banks, 1.4 per cent in the larger banks outside of Boston and 1.3 per cent in Boston banks. Average rates of interest received on bonds, especially on U. S. securities, decrease as the size of the bank increases due to the fact that the larger banks hold greater proportions of short-term, low-yield securities.

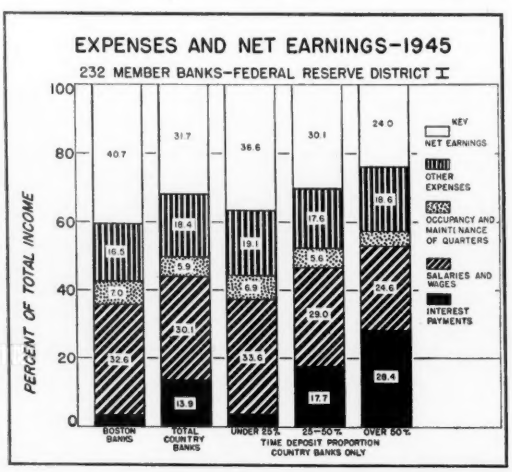
All classes of banks received substantially more income from holdings of securities than from loans. However, the smaller banks, receiving interest and discount on loans averaging 40 per cent of total income, obtained a larger proportion of total income from loans than the larger banks, which received only 21 per cent of their income in the form of interest and discount on loans. The average rate on loans and discounts was 5.9 per cent in the smaller banks, 3.5 per cent in the larger banks outside of Boston and 2.5 per cent in the Boston banks.

Banks with time deposits less than 50 per cent of total deposits showed a higher ratio of net profits

DIVIDENDS CONSERVATIVE

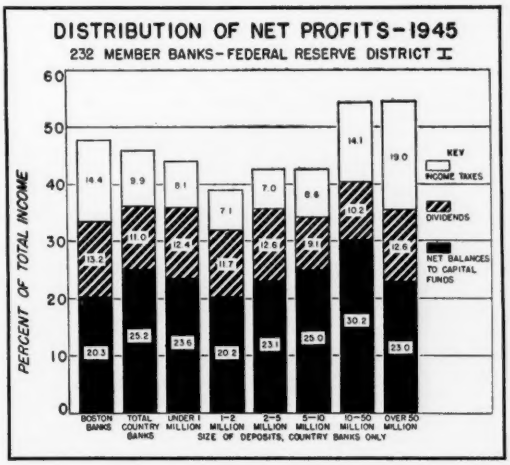
"Member banks in the First Federal Reserve District during 1945 have continued to follow a conservative dividend policy, ploughing back substantial portions of their earnings into capital. Such continuation of this policy not only provides depositors with added security but also makes possible greater banking service to New England industry, commerce, and agriculture. Total dividend payments of 232 reporting member banks for 1945 either remained unchanged from the previous year or were reduced in 63 per cent of these banks, and 70 per cent of them increased the net balance available for capital expansion. First District member banks at the end of 1945 had a ratio of capital to gross deposits of 7.4 per cent compared with the ratio of 5.9 per cent for all member banks in the country." — *Laurence F. Whittemore, President, Federal Reserve Bank of Boston.*





before taxes to total income (48 per cent) than those banks doing primarily a savings deposit business, whose ratio of net profits before taxes was 37 per cent of total income. However, the ratios of net profits before taxes to total income indicated little consistent relationship to the size of the bank. The smaller banks with total deposits under $1 million fared somewhat better in this respect than those banks with deposits between $1 million and $2 million, while the ratios of profits to income for banks with deposits over $10 million exceeded those for banks with deposits between $2 million and $10 million.

As a percentage of capital funds, net profits before taxes for outside banks tended, with exceptions, to increase with the size of the bank. One exception was the group containing the largest banks whose profits were less at 15 per cent than those of banks having deposits between $10 million and $50 million where the return before taxes was 16 per cent. This latter group of banks had the highest percentage of net profits to capital funds.



While salary and wage expense increased in almost all banks in 1945 compared with 1944, it is of interest to note that the ratio of officer and employee compensation to total income was highest in the smaller banks and lowest in the larger banks.

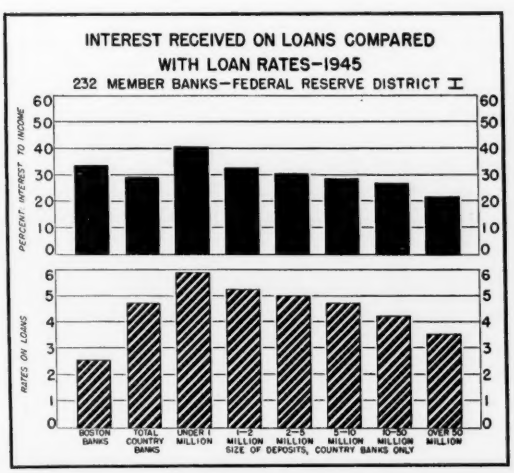
Federal and state taxes on net income fell heaviest on the larger banks, and especially upon the Boston institutions. Taxes on net income were lightest on the smaller banks, particularly those with the largest proportion of time deposits. Income taxes paid by Boston banks amounted to over 14 per cent of total income, while 19 per cent of total income received in 1945 was paid by the larger banks outside of Boston. Small banks paid in income taxes only seven per cent to eight per cent of their total income. In banks doing primarily a savings deposit business the income tax paid on 1945 income averaged only 6.3 per cent. Taxable net income, of course, reflects not only the bank's net operating earnings but also its profits on security transactions, its recoveries, charge-offs and losses.

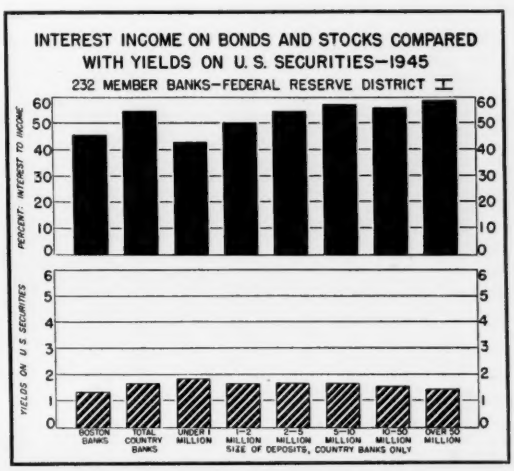
While net gains on securities sold by the Boston banks, amounting to 14 per cent of total income, were less than the average for all the outside banks, net current operating earnings of all these Boston banks were larger than the average of all the outside banks. Net current operating earnings were 41 per cent of total income of Boston banks and 32 per cent for outside banks.

In the larger outside banks, not only a substantially larger percentage of net earnings remained after current expenses but net profits on security sales, in terms of percentage of total income, were triple the profits from security transactions of the smallest banks. These conditions were naturally reflected in the much heavier tax burden on the larger than on the smaller banks.

That dividend payments by banks did not expand in keeping with the rise in earnings is indicated by the fact that such disbursements in 1945 took only 39 per cent of net profits after taxes of Boston banks and 30 per cent for those outside of the city. These percentages are considerably lower than those for recent years.

Dividend payments represented only 2.7 per cent of capital funds of all banks outside of Boston and




INTEREST INCOME ON BONDS AND STOCKS COMPARED WITH YIELDS ON U. S. SECURITIES–1945
232 MEMBER BANKS–FEDERAL RESERVE DISTRICT I
PERCENT INTEREST TO INCOME
YIELDS ON U S SECURITIES
BOSTON BANKS
TOTAL COUNTRY BANKS
UNDER 1 MILLION
1–2 MILLION
2–5 MILLION
5–10 MILLION
10–50 MILLION
OVER 50 MILLION
SIZE OF DEPOSITS, COUNTRY BANKS ONLY

3.6 per cent in the Boston banks. Corresponding percentages for 1944 were 2.5 per cent and 3.6 per cent, respectively. In fact, in the Boston banks the ratio of dividends to capital funds has remained unchanged throughout the war years 1942–1945. On the other hand, the ratio in the banks outside of Boston rose steadily from 2.3 per cent in 1942 to 2.7 per cent last year.

Banks with a high proportion of time deposits generally paid out in dividends the highest proportion of net profits after taxes. Of the banks that reported both for 1945 and 1944, 37 per cent increased their dollar volume of dividends paid, about 10 per cent of the number acutally reduced their dividend payments, while 53 per cent paid the same. ***Dollar increases in the net balance available for capital expansion were indicated in almost 70 per cent of the reporting banks.***

Total interest payments by banks expand directly with the volume of time deposits. Interest paid on time deposits amounted to less than four per cent of total income in banks doing primarily a commercial business but consumed over 28 per cent of total income in banks depending largely upon a savings deposit business.

On the other hand, the percentage of operating expenses to total income shows an inverse relationship to the volume of time deposits held. The percentages of operating expenses to total income ranged from 60 per cent in banks doing a commercial type of business to 48 per cent in banks with a large proportion of savings deposits.

While salaries and wages constitute the largest single item of a bank's operating expense, occupancy and maintenance of quarters absorbed seven per cent of the total current income of Boston banks in 1945. Banks outside of Boston with time deposits under 25 per cent of total deposits were a close second, with an expense of 6.9 per cent for occupancy and maintenance. Banks with the largest proportion of time deposits, however, spent only 4.4 per cent of total income for building space.

Trust department income was negligible in the smallest banks but amounted to over nine per cent of total income in the largest banks. Trust income in Boston banks accounted for more than 11 per cent of total income.

Service charges on deposit accounts accounted for less than 10 per cent of total income in the smaller banks and five per cent in the larger banks, although a large part of the deposit expense is accounted for by small deposit balances. That small balances are predominant is indicated by recent studies made by the Federal Reserve Bank of Boston, showing that over 80 per cent of the total number of individual accounts were under $1,000 in banks having less than $1 million in deposits of individuals, partnerships and corporations.

CONDITION OF REPORTING NEW ENGLAND MEMBER BANKS

MONTHLY AVERAGES OF WEEKLY FIGURES
(In Millions of Dollars)

Item	BOSTON				FIVE CITIES OUTSIDE OF BOSTON			
	1946		1945	% Change April '46 April '45	1946		1945	% Change April '46 April '45
	April	March	April		April	March	April	
Deposits:								
Demand deposits (adjusted*)	1,401.2	1,420.0	1,437.9	− 2.6	796.1	791.3	796.4	0.0
United States deposits	546.1	600.2	350.4	+55.9	232.2	256.9	195.4	+ 18.8
Balances due to domestic banks	255.9	255.9	251.8	+ 1.6	44.6	39.2	42.0	+ 6.2
Balances due to foreign banks	22.1	23.0	19.5	+13.3	1.5	1.2	0.6	+150.0
Time deposits	182.7	180.6	142.7	+28.0	276.2	273.7	231.8	+ 19.2
TOTAL DEPOSITS (adjusted*)	**2,408.0**	**2,479.7**	**2,202.3**	**+ 9.3**	**1,350.6**	**1,362.3**	**1,266.2**	**+ 6.7**
Reserves:								
Reserve with Federal Reserve Bank	336.8	343.7	340.7	− 1.1	130.5	125.5	133.3	− 2.1
Vault cash	35.4	34.1	39.8	−11.1	25.9	24.2	26.4	− 1.9
Balances with other domestic banks	45.3	43.4	46.8	− 3.2	74.8	72.9	70.7	+ 5.8
TOTAL RESERVES	**417.5**	**421.2**	**427.3**	**− 2.3**	**231.2**	**222.6**	**230.4**	**+ 0.3**
Loans and Investments:								
Commercial, industrial, agricultural loans	416.6	410.9	344.9	+20.8	85.1	81.3	60.3	+ 41.1
Loans to brokers and dealers in securities	58.0	60.4	46.4	+25.0	1.0	1.0	0.9	+ 11.1
Other loans for purchasing or carrying sec.	37.1	41.3	21.8	+70.2	29.4	31.9	9.9	+197.0
Real estate loans	39.8	36.4	31.2	+27.6	39.3	38.6	36.0	+ 9.2
Loans to banks	4.2	3.0	4.8	−12.5	0.6	0.7	0.4	+ 50.0
Other loans	103.7	101.5	78.5	+32.1	36.5	34.9	31.0	+ 17.7
TOTAL LOANS	**659.4**	**653.5**	**527.6**	**+25.0**	**191.9**	**188.4**	**138.5**	**+ 38.6**
United States obligations	1,466.2	1,541.0	1,395.5	+ 5.1	982.3	1,010.4	933.5	+ 5.2
Securities guaranteed by United States	**	**	0.5	.....	0.2	**	5.1	− 96.1
Other bonds and stocks owned	46.6	45.3	37.1	+25.6	41.8	40.1	39.1	+ 6.9
TOTAL INVESTMENTS	**1,512.8**	**1,586.3**	**1,433.1**	**+ 5.6**	**1,024.3**	**1,050.5**	**977.7**	**+ 4.8**
TOTAL LOANS AND INVESTMENTS	**2,172.2**	**2,239.8**	**1,960.7**	**+10.8**	**1,216.2**	**1,238.9**	**1,116.2**	**+ 9.0**

**Adjusted to exclude items in process of collection.* ***Less than $50,000.*

REVENUE FREIGHT CARLOADINGS

ALL NEW ENGLAND RAILROADS
(Number of Cars)

CLASSIFICATION	1946									1945
	March 9	March 16	March 23	March 30	April 6	April 13	April 20	April 27	May 4	March 10
Merchandise L.C.L.	10,656	10,704	10,799	10,952	11,140	11,306	10,753	10,816	11,285	8,455
Miscellaneous	12,928	13,353	14,064	14,117	12,980	13,279	12,448	12,531	12,620	12,588
All Other	4,125	4,262	3,990	3,989	2,945	2,836	2,712	3,016	2,893	4,254
TOTAL	**27,709**	**28,319**	**28,853**	**29,058**	**27,065**	**27,421**	**25,913**	**26,363**	**26,798**	**25,297**
Per Cent Change from Year Ago	**+9.5%**	**+1.4%**	**+5.6%**	**+5.4%**	**+4.4%**	**+2.0%**	**−1.7%**	**+0.4%**	**+6.4%**	**−0.5%**

Source: Association of American Railroads.

Materials, Labor — Major Bottlenecks in Housing Production

THE Veterans' Emergency Housing Program calling for record production of 2,700,000 houses by the end of 1947 faces critical shortages of many types of materials and labor required for construction. These shortages, in fact, have been so acute that many housing experts doubted that it was possible to produce this year more than 400,000 or 500,000 units. The purpose of the second of this series of three articles on housing is to analyze some of these specific obstacles which must be overcome if the emergency program is to be realized.

Bottleneck No. 1 — Building Materials

Chief bottleneck at the present time appears to be the critically short supply of the principal materials that go into new houses. The great gap between materials supplies and requirements is neither temporary nor sudden. It arises from heavy migrations of labor from materials producers to more lucrative war jobs, from Government restrictions, from conversion of many of the producing plants to output of war materials and from the development of gradually widening price distortions. Production of brick, lumber, hardware, plumbing and heating equipment, and many other building materials was considerably restricted during the war either by Government order or because of labor and equipment shortages. Nor was the situation much improved after V-J Day. During the latter part of 1945 there were strikes for higher wages, complaints over the relatively low ceiling prices on materials, and considerable wrangling with Government agencies over the future course of wages and prices. The net outcome is an acute shortage of lumber, softwood plywood, common and face brick, clay sewer pipe, cast iron radiation, gypsum board and lath, and many other types of essential materials.

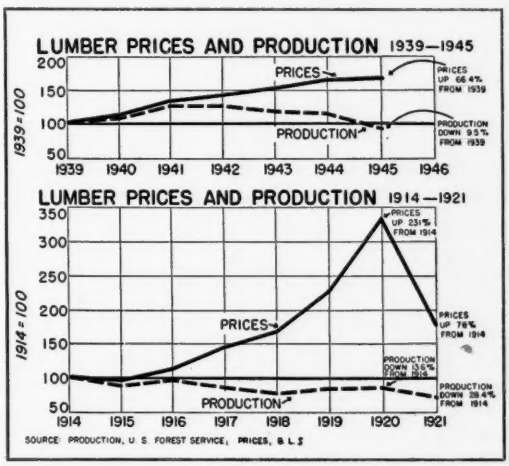
The first and most essential step now to getting houses built is accelerated production of these scarce building materials. Total requirements for the Wyatt program are staggering in terms of recent performance. Mr. Wyatt calls for a total output in 1945 prices of materials this year of $2 billion and of $3.25 billion for 1947. The latter represents, by way of comparison, an eight-fold increase over requirements in 1945.

The lumber situation deserves special mention since it is probably the most important material for housing and one of the most widely discussed. It has been estimated that output will fall short of the 1946 consumption requirements of 37 billion board feet by about seven billion. Lumber inventories are at an all-record low and large scale black market operations, particularly in the South, are disrupting normal channels of distribution. Major bottlenecks are progressively worsening supplies of accessible standing timber, manpower shortages in the East and South, strikes in the Northwest, an insufficiency of logging equipment in many areas and, until recently, reported dissatisfaction with OPA price ceilings despite price increases of more than 70 per cent since the beginning of the war.

Deficient supplies of lumber and of several of the other important construction materials, shown on the chart on page 8, demonstrate the need for greatly expanded production of scarce items. Two important methods of accomplishing increased materials output appear to be, first, the use of special premium payments to producers as a reward for extra production and, second, the use of OPA price increases on products deemed critically scarce. These two methods have been frequently offered as alternatives although they are quite compatible with each other and are both contemplated as a part of the Wyatt program.

Price Increases — A Way of Increasing Production

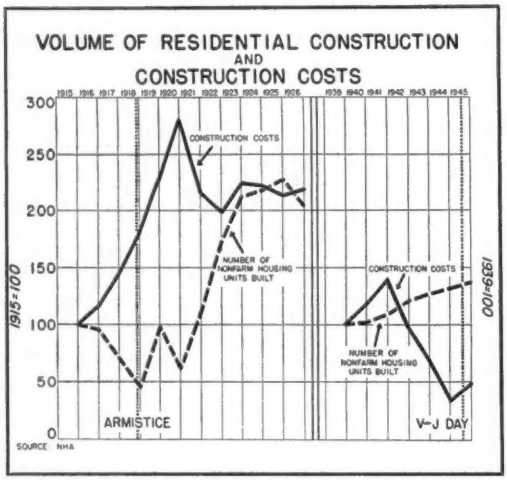
First, let us consider whether general price increases on materials in the past have resulted in expanded production of materials. The first chart compares changes in the price of what is perhaps the key housing material, lumber, in the two war periods with changes in lumber output during those same periods. It is clear that price increases granted during World War II to stimulate production of lumber were not effective. It is clear, too, that a rise in the price of lumber by 1920 to a level 231 per cent over the 1914 level did not appreciably increase production after World War I.



Two factors must be considered carefully in connection with raising prices to increase production. One is the favorable short-run effect of price increases on profit margins of producers. Increased prices may stimulate production for a time, provided that the labor and other bottlenecks which hamper output now are overcome. But the long-run issue, once transition difficulties are overcome, involves both building and maintenance costs and the demand for new houses. Excessive materials

prices, through their unfavorable effects on housing costs, may eventually leave producers with insufficient effective demand to absorb the increased output.

Construction costs are made up primarily of the prices of materials and labor. A comparison of the volume of residential construction with construction costs during and after the two war periods is shown on the chart. After the Armistice in 1918 there was a brief spurt in the production of houses, but by 1920 the volume of residential construction dropped sharply. Despite this decline construction costs continued to rise for another year. Later, production of houses started to increase and climbed steadily from 1921 through 1925, while construction costs turned in the other direction.



During the 'thirties, the costs of materials and housing remained relatively high, while the volume of home-building dropped precipitously. It is difficult to explain the reason for high materials and housing costs and prices in the face of shrinking demand and declining production. Loosely-knit organization of the industry and restrictive labor union practices, described below, were probably contributing factors. The small proportion which the price of the product of one individual supplier bears to the total cost of a house may be another. The products of hundreds of different materials suppliers go into a finished house, and many or most of them must reduce prices before significant reductions in building costs can result. This means that once housing costs are pushed up in a boom it is very difficult to get them down again in the next depression.

These facts are of particular significance now in weighing the desirability of a rise in prices for items which comprise the chief costs of a house. Housing costs are likely to be crucial in the next decade or so in determining whether present huge volumes of pent-up demand for new homes will be translated smoothly into high levels of construction activity. There is hope for some reductions in housing costs from present levels in the future by realization of the economies of mass production through prefabrication and by elimination of present allowances in contractors' quotations for delivery delays and black market prices. It is important that the mistakes of the last postwar period, when disproportionate rises in building costs acted as a brake on the demand for new houses, are not repeated. All of the requisite inflationary cost elements are present today. The backlog of demand is even greater than it was following the last war, real incomes of prospective home-owners are relatively much higher, and there is plenty of credit available.

This does not mean that the emergency housing program calls for holding the price line rigidly against all price increases for building materials. Price increases are recommended in selected cases where such price increases are "necessary and not inflationary", and will result in greatly stepped-up production of the relatively low-priced materials. It is hoped that in the long-run these selective price increases may even produce a decline in home prices through making possible a great increase in output of these materials. Price increases, too, may be necessary to compensate for higher wages needed in many cases to attract enough workers into the industry.

Increased Materials Production — Other Methods

The Wyatt program, nevertheless, places chief reliance wherever possible on methods other than price rises of getting critically scarce building materials produced. Key feature of the program was the plan, discussed in our last article, of making $600 million of premium payments available to producers of established building materials as a reward for extra performance, and to producers of new type materials as a form of straight subsidies. Since that article went to press, legislation providing for $400 million has been enacted.

Advantage of the premium-payments method, according to Mr. Wyatt, is that through it production can be stimulated selectively with a smaller net economic cost to the community than otherwise. This is because premium payments will apply to *additional units of production only* and not to units already being produced. On the other hand, price increases as a device of getting more production must be applied to *all* units of the types of commodities involved, and not just to the extra units which cost more to turn out.

Why are the costs of production likely to be higher on these extra supplies of building materials that we need for the emergency housing program? It is because producers resort to many uneconomical and inefficient producing methods to get these materials supplied in the vast quantities necessary at the right time. As during the war, materials producing plants may have to resort to multiple shift operations, overtime work, and less efficient labor. Marginal and costly sources of raw materials must be tapped. The program may call for transportation of supplies at higher than normal costs from relatively far-away sources.

Finally, in addition to operating at full capacity levels of production, many plants must operate beyond even customary limits of efficiency. Doing

these things involves extra expense. What housing officials hope is that through use of premium payments this extra expense will not bring full pressure to bear on housing costs and prices. That would either discourage prospective home buyers or would inflate mortgage loans above levels justified in terms of probable future housing values.

Bottleneck No. 2 — Labor

Present deficiencies of both skilled and unskilled building workers reflect both the flow of labor into the armed forces and into higher-paying war jobs and the inadequate apprentice systems in operation during and before the war for training of additional skilled workers. Many former construction workers have, of course, been released from the armed forces, but they represent only a fraction of the numbers which will be needed. To meet the requirements of the Wyatt program a peak of some 2,150,000 workers will have to be on the job by mid-1947 — 1,150,000 at work building houses and 1,000,000 producing and distributing the materials that go into them. This represents a three-fold increase over employment in the industry in 1945.

Hourly wage rates in the building industry are already high, though yearly incomes do not reflect high hourly rates because the work is so seasonal. Union wage scales in April 1946 for construction workers in the city of Boston, according to the Bureau of Labor Statistics, were the following: bricklayers, $1.72½ per hour; carpenters, $1.60; electricians, $1.72½; painters, $1.44; plumbers, $1.72½; and building laborers, $1.15. Chief problems, therefore, are to reduce the seasonal nature of the work and to convince the unions that the market is big enough and the future likely to be sufficiently steady to warrant introduction of many new workers into the field. Many of the union regulations have, in fact, dropped out of use during the war, since there were and are now many more construction jobs than there are people to fill them.

It is not easy, however, to attract workers when they are most needed into an industry such as building whose fortunes and those of the workers employed in it are subject to wide and unpredictable changes. During the early 1920's business was lucrative and contractors had about all the work they could handle. From the late 'twenties to about 1937, as we tried to show in a previous article, the industry has been for the most part physically and economically in a sick condition, despite some convalescence in the latter 1930's.

In economic circles these abnormal ups and downs in the industry are expressed, partially, in a description of what is known as the "construction cycle". United States experience has shown that the length of time between one peak of building activity and another corresponding peak, and from one low to another, has averaged about 18 years, as compared with a period between peaks of general business activity of about eight or nine years. In other words, construction as an industry has historically had longer periods of exceptionally good times and longer periods of exceptionally bad times than most other industries. In addition, the extent of the change from high to low and low to high is much greater in building than in most other types of business activity. These two characteristics have had a disturbing effect not only on the workers directly involved but also on business and employment generally. This is because construction is a highly important element in the economy in terms of the income which it generates for workers, contractors, and producers of materials, and in terms of the vast outlets for investment which it provides for individual and business savings.

Technological lag in the construction industry is a third major bottleneck which adds considerably to the problems involved in building a record number of houses. Most houses still consist, as they did one hundred years ago, of many individual pieces which must all be handled separately and assembled on the site. This is one of the many reasons why Mr. Wyatt hopes to expand production of prefabricated houses, which would probably result in lowered costs when turned out in sufficiently large numbers. One barrier, however, to rapid building of prefabricated homes is the requirement in many of our local building codes for use of specific materials and specific techniques. Such codes provide little leeway for the builder who can produce the same or better results by using new-type methods and materials which were not known when the codes were drawn up originally.

Mass production methods are not employed and most houses are built by fairly small contracting firms operating on a limited amount of capital. Probably 95 per cent of the 227,000 active proprietors engaged in construction in 1939, according to U. S. Census of Business figures, build annually a volume of only $100,000 or less. Thus, houses are in general produced by a loosely-knit organization which consists of a number of different industries which have a part in producing, financing, and selling homes. This means that there is considerable friction in getting production started and coordinated smoothly in all of the different branches of building. Much time usually elapses before any considerable volume of output can be turned out after the initial demand signal is given.

CPA Limitations on Construction

Presence of these three bottlenecks probably means that even with Government aid there will not be enough materials and labor for all of the contractors who want to build. The next step in the Government housing program, therefore, has been establishment of a control mechanism for channeling available supplies of labor and materials into houses for veterans and for limiting nonessential construction which competes for the short supply of materials and labor. There was a considerable period of trial and error before present restrictions were clamped on. During most of the war period WPB Order L-41 served to pare civilian building down to the barest minimum. L-41 controls were removed last October 15 under the pressure for free markets after V-J Day. For a time residential, commercial, and industrial builders were allowed to compete freely with each other and with

everyone else for scarce materials, although not on a price basis.

It soon became evident, however, that the trial at free markets was proving a failure from the point of view of getting enough houses built. Residential builders were being supplied with only about 30 per cent of total available quantities of materials and labor, and most of this was going into houses built to sell for $8,000 to $10,000 and over. For this reason, CPA Priorities Regulation 33 went into effect on January 15. Any eligible builder may, under the regulation, obtain HH preference ratings or certified orders for such scarce materials as lumber, gypsum board and lath, cast iron soil pipe and others which he needs for the proposed building project. The veteran obtains an HH priority from the FHA for the materials he needs for his house, and serves it on his builder. On a basis of the HH priority the builder issues a certified order which is delivered to the mill or factory producing the desired housing material. Chief purpose of the regulation was to channel approximately 50 per cent of the critical 1946 supply of building materials into homes that will sell to veterans for $10,000 or less, or rent for $80 a month or less. HH priorities were approved for 400,000 new dwelling units from January 15 to April 26, 1946.

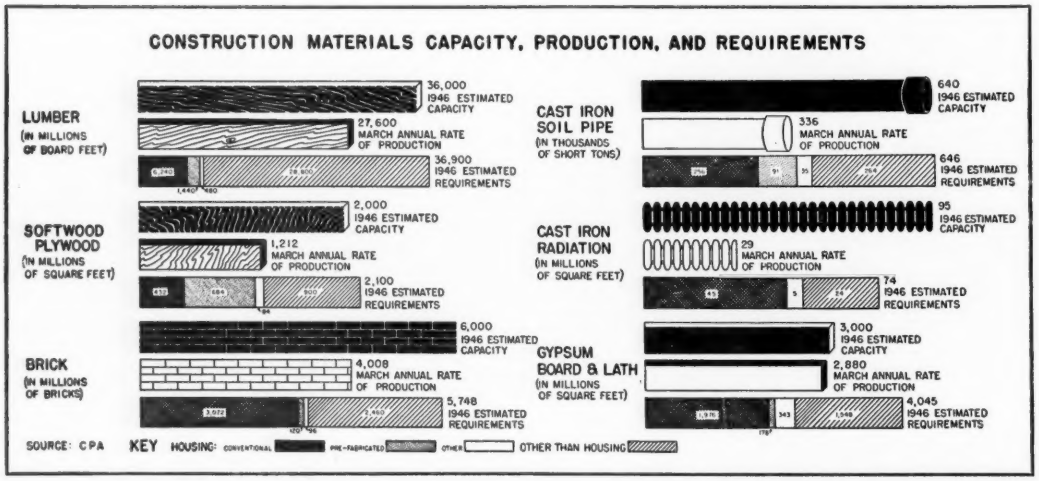
Housing officials in March estimated that over $50,000,000 in building materials and labor still were being diverted weekly into commercial and industrial construction. This, they said, jeopardized the Wyatt housing program. With these figures on hand, CPA issued on March 26 a series of restrictions on construction more drastic than anything imposed on building activity during the war. Specific approval by one of the 71 regional construction offices of the CPA is now required not only for new construction, but also for repairs and alterations of any material scope under Veterans' Housing Program Order No. 1. Since the order is intended primarily to conserve materials for the veterans' housing program, only a limited number of major projects other than homes for veterans selling for $10,000 or less stand much chance of getting CPA approval in the immediate future.

Another housing order (NHA Order 13-1) to channel materials into moderate and low cost homes followed on April 22. Mr. Wyatt's latest order directs District Federal Housing Administration offices to set housing goals for the second quarter of 1946 for the area. One-quarter of the units planned in the goal are to be built for rental, and the other three-quarters are to be built for sale. Half of the dwellings built for rental must rent at or below a stated ceiling which varies from city to city in the $40 to $65 range (the ceiling for Boston was set at $50). Similarly, one-half of the houses built for sale must sell at or below local "dividing lines", which again range from about $4,500 to $9,000, that for Boston being $7,500. These variations from city to city take into account differences in regional building costs, and the climatic conditions which require different housing standards in different parts of the country.

1946 Goal Probably Not Attainable

Present bottlenecks in our supplies of building materials and labor are of critical importance and appear to jeopardize the chances for construction of 1,200,000 low and moderate cost homes by the end of 1946. A measure of the possibility of achieving the 1946 housing goal may be gained by comparing the current rate of materials production with the rate during the peak construction year 1925. Although there have been shifts in the relative importance of some materials since 1925, production rates during that year for some basic items are indicative of what may be needed today.

According to the Dodge reports for 37 Eastern States, the total value of construction contracts awarded in 1925 was about $6 billion. The value in 1946 for the same states is estimated on the basis of first quarter reports to be $7.4 billion at current prices or $5.2 billion in dollars of 1925 purchasing power. Using the value figures adjusted to 1925 construction costs as a measure of physical volume, construction this year will fall short of the 1925 physical volume by only about 14 per cent if the first quarter rate continues its usual relationship to the annual total.



In March of this year, however, lumber production was at an annual rate of only 72 per cent of the 1925 rate; oak flooring production was only 38 per cent of the 1925 rate; brick, 40 per cent; cast iron soil pipe, 89 per cent; clay sewer pipe, 35 per cent; warm air furnaces, 88 per cent; and cast iron radiation, 18 per cent. Similar deficiencies exist for other essential materials, and all deficiencies are accentuated by the virtual nonexistence of inventories now compared with the cushion provided by reasonable inventories in 1925. These circumstances account for the recent NHA announcement that the "shortage of materials is expected to extend the construction period of most dwellings from the normal period of four months to between six and seven months".

On the basis of the deficiency of materials supplies shown either in terms of 1946 requirements (see chart on page 8) or in terms of 1925 production, it appears that unless there is a remarkable improvement in materials production the 1946 housing goal will not be attained.

It is unlikely that the means used to achieve the miracle of war production can be used to step up production of construction materials. War production was not regular business, and producers could afford to throw normal caution to the winds in making an all-out wartime effort. Materials production is and will continue to be the regular activity of the producers engaged in it. They are therefore cost-conscious and are not likely, as did war contractors, to raise wages extravagantly to attract labor or to resort willingly to inefficient methods of increasing output. Moreover, they are no longer required and labor is generally unwilling to maintain a 48-hour week as was required during the war. Labor is not now, as it was during the war, channeled into essential lines by the draft and by War Manpower Commission orders, nor is it bound by no-strike pledges. These fundamental distinctions between conditions of war production and those applicable to production of construction materials militate against spectacular increases in materials production in the next 12 to 18 months, despite price increases and premium payments. In view of these factors, banks should use caution in making construction loans if they wish to avoid becoming owners of unfinished houses, and a large part of the house-hungry public would be wise not to count too heavily upon new construction to provide them with homes this year.

But even if the goal for 1946 were accomplished it does not appear that all or even most of our housing problems will be ironed out. Experience shows the existence of other points of difficulty in the industry which will be with us not only during the next two years but also, probably, for a long time to come. These include historic instability in construction acitivity, rigid materials prices, restrictive local building codes and union practices, and backward organization in many parts of the industry. The success of attempts to overcome these problems may be crucial in deciding whether prospects in residential construction for the next decade and longer will be as bright as those of the next two years.

New England Manufacturers' Deposits Drop After Mid-1945 as Individuals' Gain

DEMAND deposit balances of manufacturing enterprises, which comprise a major part of all demand deposits of businesses and individuals in New England, dropped significantly during the six months between July 31, 1945 and January 31, 1946. The drop was caused by early postwar shifts in deposit ownership during this period which moved funds out of manufacturing accounts and into personal, trade, financial and other business accounts. While manufacturers' balances were 31 per cent of a total of $3,536 million in business and individual demand deposits in all First District commercial banks as of July 31, 1945, they were only 27 per cent of a total of $3,689 million as of January 31, 1946, according to estimates by the Board of Governors of the Federal Reserve System.

According to the deposit analysis recently completed by this bank, other significant changes taking place between July 1945 and January 1946 were the following:

1. ***An increase of 11 per cent in personal deposits (including farmers' accounts) since the preceding analysis, bringing these deposits to their highest level in the three-year history of the deposit surveys.***
2. ***A further increase, amounting to 13 per cent, in retail and wholesale trade deposits.***
3. ***An 18 per cent gain in demand deposits of financial businesses other than insurance.***
4. ***A 17 per cent gain in balances of nonprofit associations, churches, educational institutions, etc.***
5. ***An increase of 17 percent in trust funds of banks.***

The shrinking ratio of manufacturers' deposits to total deposits is the first major decline in the importance of such deposits in New England since the initial demand deposit ownership survey was conducted in July 1943. Throughout the course of these semi-annual surveys, manufacturers' deposits have been relatively more important in New England than in many other areas, which is to be expected because of the major importance of manufacturing in this district. That this regional importance still exists is indicated by the fact that manufacturers' deposits are estimated to be 22 per cent of all demand deposits of businesses and individuals in United States commercial banks, five per cent less than the corresponding New England ratio.

The reduction of bank deposits of manufacturers is not a change confined to New England. Deposits of manufacturing and mining concerns in the country as a whole dropped $2.3 billion, or 13 per cent, between July 1945 and January 1946. Actually,

therefore, the $96 million decline of such deposits in New England, amounting to only nine per cent, was smaller in percentage terms than in the nation as a whole. This relatively smaller decline in manufacturing deposits in New England is partially indicative of an easier reconversion problem in this area's industry.

Although the nation's industrial production reached its wartime peak in the latter part of 1943, and declined somewhat from that peak in 1944, the greatest drop, as measured by the index of industrial production of the Board of Governors of the Federal Reserve System, took place immediately after July 1945. The period of time between the July 1945 and the January 1946 deposit surveys, therefore, embraced some of the first important economic reactions to the conclusion of the war upon manufacturing industry. Renegotiation of Government contracts must have drained manufacturers' cash reserves somewhat. Income tax payments and repayments on "V" loans, as well as expenditures for reconverting plant and equipment, absorbed further amounts of manufacturers' cash and in many cases in the face of temporarily decreased operating income.

The contraction in manufacturing deposits revealed in the latest survey coincides with what may be the beginning of a renaissance of private as opposed to public borrowing. For example, commercial loans of weekly reporting member banks in this district increased 16 per cent ($66 million) between August 1, 1945 and January 30, 1946. This class of loans likewise increased 23 per cent ($1,374 million) in reporting member banks in 101 cities throughout the United States over a similar period. Furthermore, consumer loans in member banks increased eight per cent in the First Federal Reserve District and 13 per cent nationally during the last six months of 1945.

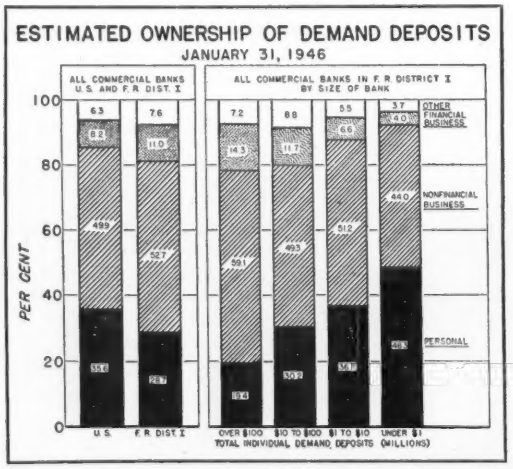
Personal deposits are estimated to be 29 per cent of all demand deposits of individuals, partnerships and corporations in First District commercial banks, having gained 28 per cent in amount since July 1943. In New England these deposits expanded 11 per cent between July 1945 and January 1946, which compared with a 15 per cent gain for the United States as a whole during the same six-month period.

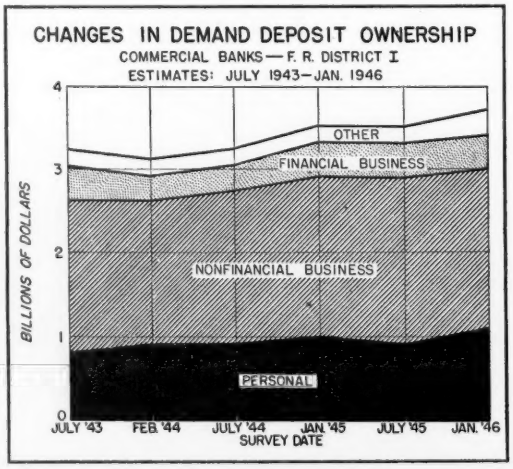
The expansion in personal deposits which took place between the last two survey dates is particularly significant in view of the fact that consumer expenditures in the United States increased 18 per cent in the last six months of 1945, according to estimates of the Department of Commerce, while total income payments to individuals during the period between the July and January surveys decreased about five per cent.

Part of the increase in personal deposits can be ascribed to the influence of the season upon farmers' balances. Accounts of farmers are usually higher in January than at mid-year, at which latter period the effect of heavy pre-crop expenditures is quite noticeable. On the other hand, the lion's share of the increase in personal deposits is attributable to individuals other than farmers and, considering lower consumer incomes and higher consumer expenditures, would indicate a preference on the part of many to keep their surplus assets in the highly liquid form of demand deposits. Apparently people have been unable to satisfy many of their demands for new consumers' goods which have been slow in returning to the market.

Deposits of individual persons, including farmers, which account for 29 per cent of all demand deposits of individuals, partnerships, and corporations, are now established as the largest single ownership class in New England as well as in the United States as a whole. The difference between the volume of personal and manufacturing accounts in New England, however, is especially slim, amounting only to about two per cent of total estimated demand deposits in this region compared with nearly 14 per cent for the whole country.

Deposits of retail and wholesale trade establishments, which ranked third in importance as a percentage of total deposits in this district, expanded 13 per cent between July 1945 and January 1946. Deposits of these business organizations remained fairly stable in earlier surveys between July 1943 and July 1944; since the latter date, however, they have shown remarkable growth and have altogether increased 36 per cent since July 1943.





SALES CONDITIONS

1945 = 100

	Month of April				January through April			
	1943	1944	1945	1946	1943	1944	1945	1946
Connecticut Department Stores	122	115	100	149	93	94	100	114
Maine Department Stores	108	109	100	142	93	92	100	119
Massachusetts Department Stores	101	103	100	148	86	88	100	120
New Hampshire Department Stores	114	116	100	159	84	89	100	121
Rhode Island Department Stores	110	106	100	150	86	89	100	119
Vermont Department Stores	95	97	100	142	81	87	100	127
Boston Department Stores	95	99	100	146	84	87	100	120
Springfield Department Stores	116	114	100	148	98	93	100	113
Worcester Department Stores	109	101	100	156	87	84	100	123
New Haven Department Stores	116	115	100	158	88	93	100	118
Portland Department Stores	109	110	100	138	95	93	100	115
Providence Department Stores	108	105	100	150	86	89	100	119
New England Department Stores	103	104	100	148	87	88	100	119

CREDIT CONDITIONS

Percentage of Regular Charge Accounts Outstanding at the First of April Collected during April

	1943	1944	1945	1946
Boston Department Stores	53.1%	53.1%	51.9%	52.3%
New Haven Department Stores	59.1	53.5	50.9	58.1
Providence Department Stores	57.9	56.6	55.8	58.7
New England Department Stores	55.3	54.8	53.3	54.8

SALES BY DEPARTMENTS — NEW ENGLAND DEPARTMENT STORES

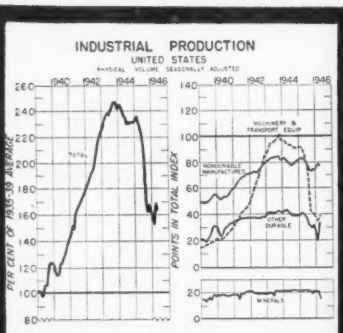
1945 = 100

	Month of April				January through April			
	1943	1944	1945	1946	1943	1944	1945	1946
Women's, Misses', and Juniors' Ready-to-Wear:	90	93	100	132	83	85	100	117
Coats — Women's and Misses'	123	123	100	146	99	91	100	115
Dresses — Women's and Misses'	71	82	100	124	72	79	100	120
Juniors' Coats, Suits, Dresses	93	100	100	148	72	78	100	122
Furs, ex. Repairs and Storage	202	47	100	224	114	111	100	125
Aprons, House Dresses, Uniforms	67	78	100	107	79	79	100	110
Sportswear	*	*	100	117	*	*	100	107
Suits	123	116	100	191	88	76	100	136
Ready-to-Wear not reported separately	75	90	100	80	75	82	100	75
Women's, Misses' and Juniors' Accessories:	111	112	100	154	85	91	100	112
Millinery	159	156	100	194	85	94	100	115
Neckwear and Scarfs	111	132	100	152	81	95	100	108
Corsets and Brassieres	75	96	100	131	76	84	100	116
Knit Underwear	78	94	100	112	83	83	100	99
Woven Underwear	79	89	100	123	75	78	100	111
Negligees and Bathrobes	73	76	100	130	73	79	100	114
Handkerchiefs	123	130	100	164	83	86	100	106
Gloves	183	172	100	216	87	92	100	112
Hosiery	116	116	100	144	93	91	100	96
Shoes	113	122	100	160	85	87	100	120
Jewelry	103	97	100	169	76	94	100	123
Leather Goods	166	106	100	215	96	103	100	126
Toilet Articles and Drugs	88	76	100	127	86	106	100	110
Umbrellas, Parasols, Canes	96	141	100	137	103	101	100	121
Men's and Boys' Clothing and Furnishings:	137	132	100	207	96	87	100	129
Men's Clothing	130	120	100	185	113	88	100	121
Men's Furnishings, including Hats and Caps	109	106	100	195	92	84	100	147
Boys' Clothing and Furnishings	202	192	100	267	83	89	100	111
Men's and Boys' Shoes	124	135	100	196	98	86	100	131
Infants', Children's, Girls' and "Teen-Age" Wear:	122	130	100	164	70	86	100	104
Infants' Department	102	116	100	145	69	88	100	103
Girls' and "Teen-Age" Wear	165	159	100	204	71	84	100	106
Home Furnishings:	81	83	100	146	89	88	100	142
Furniture, Beds, Mattresses, Springs	70	72	100	120	86	83	100	134
House Furnishings	81	79	100	163	88	81	100	165
Major Appliances	305	61	100	899	182	65	100	752
Draperies and Curtains	75	84	100	126	71	83	100	120
Lamps and Shades	79	84	100	180	90	81	100	169
Floor Coverings	95	93	100	145	94	93	100	144
China and Glassware	70	82	100	134	82	88	100	131
Linens	88	96	100	142	98	99	100	127
Domestics and Bed Coverings	87	88	100	166	105	100	100	138
Radios	320	167	100	722	326	108	100	500
Piece Goods:	75	94	100	111	74	85	100	99
Silks and Velvets	75	99	100	110	69	83	100	99
Woolen Dress Goods	118	103	100	138	89	85	100	102
Cotton Dress Goods	68	96	100	98	75	91	100	89
Smallwares:	75	92	100	125	73	86	100	111
Laces, Trimmings, Embroideries, Ribbons	85	122	100	172	62	92	100	115
Notions	72	84	100	114	75	85	100	110
Toys and Sporting Goods	87	83	100	188	79	78	100	162
Miscellaneous:	93	98	100	133	85	94	100	118
Silverware	125	88	100	206	140	118	100	187
Luggage	133	70	100	171	135	110	100	151
Books	*	*	100	138	*	*	100	136
Stationery	*	*	100	99	*	*	100	89
Art Goods, including Needlework	80	99	100	120	82	88	100	105
Beauty Shop	*	*	100	111	*	*	100	106
All Other	97	102	100	139	86	95	100	120
Basement	110	108	100	145	93	88	100	111
GRAND TOTAL	100	102	100	147	87	88	100	119

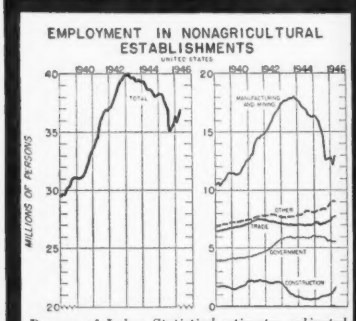
*Figures not available.

BUSINESS AND FINANCIAL CONDITIONS IN THE UNITED STATES

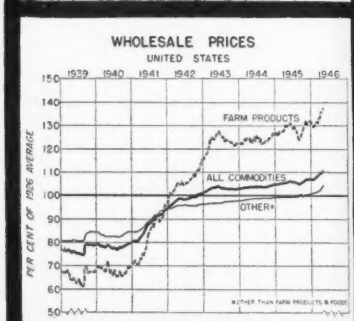
Prepared and released by the Board of Governors of the Federal Reserve System



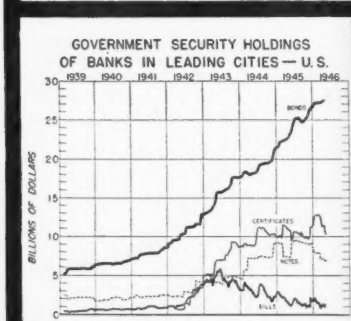
Federal Reserve index. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are for April 1946.



Bureau of Labor Statistics' estimates, adjusted for seasonal variation by Federal Reserve. Latest month shown is April 1946.



Bureau of Labor Statistics' indexes. Weekly figures, latest shown are for week ending May 18, 1946.



Excludes guaranteed securities. Wednesday figures, latest shown are for May 15, 1946.

INDUSTRIAL output declined somewhat in April and the early part of May owing to the coal strike. Employment in the economy as a whole, however, continued to expand in April. The value of retail trade was maintained at record levels and commodity prices rose further.

Industrial Production. The Board's seasonally adjusted index of industrial production declined two per cent in April and was at 164 per cent of the 1935–39 average. The drop in coal output after April 1 and the resultant curtailment in operations in some industries were offset in part by substantial increases in activity in the automobile and electrical machinery industries following settlement of wage disputes in the latter part of March.

Production of durable manufactures as a group rose three per cent in April. Iron and steel production declined about six per cent; decreased output of pig iron and open hearth and bessemer steel was partly offset by a sharp rise in electric steel production. In May activity at steel mills continued to decline as a result of coal shortages and during the past two weeks has averaged only about 50 per cent of capacity.

The number of passenger cars and trucks assembled in April was 80 per cent greater than in March, and there also were substantial increases in activity in the railroad equipment industry and in output of many types of electrical equipment. Production of lumber and stone, clay, and glass products was maintained at the March level, which was above the same period last year.

Output of most nondurable goods was maintained in April at about the March level. Activity at cotton mills declined slightly, owing to reduced coal supplies, but output at other textile mills advanced further. The number of animals slaughtered under Federal inspection continued to decline sharply in April. Output of flour and bakery products decreased somewhat in April and is expected to decline substantially in May as a result of the stringent wheat supply situation.

Minerals production declined by a fourth from March to April, reflecting primarily the drop in bituminous coal output. There was also a further reduction in output of metals, while crude petroleum production increased in April and early May. On May 13 bituminous coal production was resumed under a temporary work agreement, and during the week ending May 18 output was 70 per cent of the pre-strike weekly rate.

Value of construction contracts awarded rose sharply in April, according to reports of the F. W. Dodge Corporation. The increase reflected a very large expansion in awards for private residential construction to a record level; awards for most other types of private construction were maintained at recent high levels.

Employment. Nonagricultural employment continued to gain in April notwithstanding the bituminous coal strike, and unemployment decreased by about 350,000. Manufacturing employment rose by about 400,000 largely because of settlement of major labor disputes, and construction employment showed a further large gain.

Commodity Prices. Price ceilings on grains were increased substantially on May 13 and ceilings for a number of nonagricultural products have also been raised during the past month. Recent price increases for industrial products have usually been between 10 and 20 per cent. Recent advances announced for automobiles were smaller than these amounts but they were in addition to price increases made earlier this year.

Retail prices of most groups of commodities continued to show small advances in April and the consumers' price index increased one-half per cent to a point three per cent higher than in April 1945.

Distribution. Retail sales continued at a high rate in April and the first half of May. During the past four weeks department store sales have been one-third larger in value than in the corresponding period of 1945.

Freight carloadings declined sharply in April, reflecting chiefly the drop in coal shipments. Shipments of most manufactured products continued to increase until the week ending May 18. In that week interruptions in freight service resulted in large decreases in loadings of manufactured products but bituminous coal shipments were resumed, and total loadings increased slightly.

Bank Credit. Treasury deposits declined, reflecting disbursements in excess of receipts, and deposits subject to reserve requirements increased during April and the first three weeks of May. Reserve balances increased less than required reserves, and excess reserves declined to about 700 million dollars on May 22. Federal Reserve holdings of Government securities, which declined substantially in the early months of the year, have increased somewhat since the middle of April.

Member bank holdings of Treasury bills, certificates, and notes declined in April and the first half of May, while holdings of Treasury bonds increased further. Loans at member banks in leading cities declined, reflecting largely reductions in loans for purchasing and carrying Government securities.